

# CITY OF LODI

## COUNCIL COMMUNICATION

**AGENDA TITLE:** Resolution authorizing the City of Lodi to join the Pacific Housing and Finance Agency and establish a "Lease to Own" program for residential home purchases.

**MEETING DATE:** July 7, 1999

**PREPARED BY:** Community Development Director

**RECOMMENDED ACTION:** That the City Council adopt the attached Resolution authorizing the City of Lodi to join the Pacific Housing and Finance Agency.

**BACKGROUND INFORMATION:** On June 14<sup>th</sup>, staff received a proposal to participate in a residential lease to own program, financed through tax-exempt bonds and private long-term mortgage financing. The Pacific Housing and Finance Agency, a joint powers agency, is presently comprised of 18 cities in California including Galt, Fresno, and West Sacramento. The agency is still in the formation stage and is looking for participation from Lodi as well as several other central valley cities.


As the City Council is aware, home ownership in Lodi is supported through our Down Payment Assistance program. This program provides for required down payments to those individuals who qualify for conventional loan financing, but do not have sufficient savings to make the initial down payment. This program has been quite successful to date with a dozen new Lodi homeowners participating. The City promotes home ownership as a means to improve the quality of life within the community and to foster responsible citizenship. One way to promote home ownership, improve the housing stock and to convert single family rental houses to ownership within Lodi is to develop programs designed to increase the ease of purchasing single-family homes in the City, including this lease-to-own program.

The program outlined herein continues the City's goal of promoting homeownership. There is no cost to the City in order to participate. The joint powers agency sponsors a lease to own program which allows participants to build equity in a new or existing home during an initial lease period. The lease-to-own program lets a family lease-purchase a house with a 2% of the sale price participation fee and then assume a conventional 30-year fixed rate mortgage after three years in the program. This lease-to-own program would be available to home buyers in Lodi with up to 140% of median income. This home ownership program is neither restricted to first time home buyers nor limited to low income participants, since the 140% of median threshold reaches well into the middle class in the City.

The program could be an important tool to help spur home sales in Lodi. In addition to not using City funds, there are a number of advantages the program has over traditional housing assistance programs, and it can be used to finance any of the following:

- a renter's purchase of a home from his/her landlord;
- a renter's purchase and substantial rehabilitation of a home;

**APPROVED:** \_\_\_\_\_

  
H. Dixon Flynn -- City Manager

- the purchase of any new or existing house within the city by any person meeting certain criteria; or
- the promotion of economic development by addressing the employee housing needs of (relocating) employers.

### **How the Program Works**

The Lease-to-Own Home Ownership Program promotes home ownership by providing down payment and closing costs for home purchasers. The Program takes out a mortgage on behalf of the Program Participant at current mortgage rates, and participants build equity in the home during a three-year lease period and then assume the mortgage from the Program.

For the first three years, the home purchaser makes monthly lease payments to the program's non-profit corporation rather than payments to a mortgage lender. After three years, lease payments cease to be paid to the non-profit and mortgage payments are paid directly to the mortgage company. The lease-to-own conversion takes place without increases in monthly payments, since all lease payments would be equal to the monthly payments under a traditional 30-year conventional fixed rate mortgage established at the time the purchaser commits to the house.

In effect, the home buyer receives an outright grant of down payment and closing costs (approximately 8% of the purchase price of the house) in exchange for paying 2% of the purchase price as program costs. Other down payment assistance programs simply increase mortgage amounts to decrease up front costs. In contrast, the lease-to-own purchaser nets about 6% savings up front on the price of the house including closing costs as demonstrated by the following chart:

<b>Lease-to-Own Purchase</b>		<b>Unassisted Purchase</b>	
Price of House (example)	\$100,000	Price of House (example)	\$100,000
Mortgage	\$ 97,000	Mortgage	\$ 97,000
Down Payment	\$ 0.0	Down Payment	\$ 5,000
Closing Costs	\$ 0.0	Closing Costs	\$ 3,000
Program Fee (2%)	\$ 2,000	Program Fee (2%)	\$ 0.00
Total Cost to Buyer	\$ 99,000	Total Cost to Buyer	\$105,000

During the lease period, the purchaser does pay down the mortgage. Both principal and interest are paid on the loan so a lease-to-own program truly reduces the effective price of the house and the initial down payment and closing cost barrier to home ownership. Upon conversion to homeownership status, the homeowner would make the monthly mortgage payments for the remaining 27 years. Thus, the participant has a real opportunity to create equity and a great incentive to become a homeowner.

The loan is assumed by the Program Participant at the end of the three years and upon meeting certain agreed upon conditions listed in the lease agreement. For example, Freddie Mac requires that the tenant be requalified by the lender immediately prior to mortgage assumption to ensure the tenant continues to meet Freddie Mac's creditworthiness standards including credit and employment. The lender typically charges an assumption fee of about \$250 and processes the assumption agreement; the process will be outlined in the Origination and Servicing Agreement when the document is drafted. If the tenant does not qualify, the lease can be extended in order to allow the tenant to correct those items that

caused the non-approval, or the tenant can be removed since he or she did not meet the conditions of the lease.

As with any commitment to purchase a home, the buyer chooses more responsibility in order to reap the potential benefits of home ownership. During the first three years, a program participant must demonstrate the ability to make payments by meeting the home lease financial obligation. A participant who fails to do so will be evicted and replaced by another family desiring home ownership. The new family benefits from the program costs and amortization already met by the prior participant. In order to enhance success rates, purchasers will be required to complete home ownership education.

### **Financial Commitment**

Bonds sold by the Agency will finance the lease-to-own program, pay administration costs, pay costs of bond issuance, pay for annual audits, and director's insurance. The Agency will not have the power to financially obligate the City of Lodi. Tax-exempt bond debt issued by the Agency will be Agency debt and not a debt or obligation of any participating city. No City general funds or Redevelopment Agency funds are committed to this program.

The Agency must pay for an audit and provide director's insurance, which will be paid from bond proceeds. If the Agency were to lack these funds upon dissolution, the member cities would be required to pay a pro rata share of these expenses to terminate the program (according to Agency staff, \$2000 per city should be sufficient to close out the program).

No funding by the City of Lodi is required to join the Agency or to participate in the lease-to-own program. No funding is being requested. Prior to the sale of bonds, the City is free to withdraw from the program if it wishes. However, the sale of bonds and the sale of lender commitments will be based on the number of cities and those cities' populations and housing markets, so the City is committed to remaining in the J.P.A. once bonds are issued.

As a member of the J.P.A., the City will need to appoint a representative. This can either be a Council member or staff. It is anticipated that the Agency will meet on a quarterly basis. Meeting location will take place on a rotation basis between northern and southern California cities.

### **Agency Staff**

The Pacific Housing & Finance Agency is a new entity formed by participants experienced in city management, mortgage lending, finance, and law.

1. Dave Elder, the executive director of the Agency, will provide administrative and property management services. He is an experienced real estate industry professional and former State Assembly Member.
2. Jim Chilton of J.K. Chilton & Associates has developed expertise in the field of single family tax-exempt housing bond programs in positions including those of senior vice-president and manager of

the municipal investment banking division of Shearson/American Express for the western United States and CEO of two California investment banking firms.

3. Francis Baum of the law office of Best Best & Krieger will serve as bond counsel.
4. Stephen Melikian of the San Francisco office of Nossman, Guthner, Knox, and Elliott will serve as Disclosure Counsel.

The proposed membership in the Pacific Housing & Finance Agency will provide benefits to the City in the following manner:

1. Improvement of existing housing stock
2. Promotion of home ownership
3. Addition of new resources to promote City goals

FUNDING: Not Applicable

A handwritten signature in black ink, appearing to read 'Konradt Bartlam', with a stylized, circular flourish on the left side.

Konradt Bartlam  
Community Development Director

Cc: City Attorney  
Finance Director  
Human Resource Director  
Community Improvement Manager

RESOLUTION NO. 99-98

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING  
THE CITY OF LODI TO JOIN THE PACIFIC HOUSING AND  
FINANCE AGENCY AND ESTABLISH A "LEASE TO OWN"  
PROGRAM FOR RESIDENTIAL HOME PURCHASES

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BE IT RESOLVED, that the City Council of the City of Lodi hereby authorizes the City of Lodi to join the Pacific Housing and Finance Agency establishing a "Lease to Own" Program for Residential Home Purchases.

Dated: July 7, 1999

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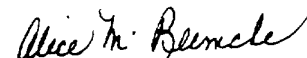
I hereby certify that Resolution No. 99-98 was passed and adopted by the City Council of the City of Lodi in a regular meeting held July 7, 1999, by the following vote:

AYES: COUNCIL MEMBERS – Hitchcock, Mann, Nakanishi, Pennino and  
Land (Mayor)

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None

  
ALICE M. REIMCHE  
City Clerk